

The World Cotton Market

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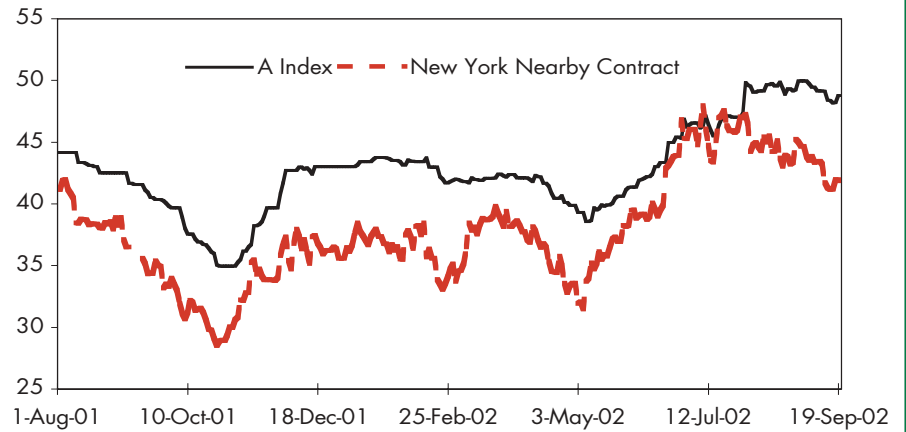
When we last wrote for *The Australian Cottongrower* in July, we concluded that, in the view of some analysts, a downturn in futures — at least relative to prices for the major 'outside' growths — may at some point be inevitable. This proves to have been a valid expectation.

During the intervening period, New York futures have given up ground whereas the Cotlook A Index has remained comparatively firm throughout most of the period.

The divergent movement can be attributed to the requirement of the US to make headway in accumulating export sales. The US Department of Agriculture continues to predict that US exports this season will exceed the 11,000,000 bales (480 lbs) achieved in 2001-02 but export sales progress, at the time of writing, lags behind last year by about 25 per cent.

It is already apparent that the US cotton

FIGURE 1: Future prices relative to the cotlook A Index



industry's dependence on the international market is much greater than it was in the late 1990s, when typically more than 50 per cent of the US supply was consumed domestically. Last season, the proportion was 29 per cent and only a modest recov-

ery is forecast during 2002-03.

Internationally, many mill buyers have simply not proved willing to book forward shipment supplies in volume at current asking rates, complaining that yarn prices and textile business conditions do not warrant

paying higher raw material replacement prices. Furthermore, spinners have sometimes been able to take advantage of cheaper old crop remnants (notably West African), offered for prompt and nearby shipment from traders' hands, which can be carried cost effectively against forward spinning requirements — so the faith in hand-to-mouth purchasing remains strong.

YARN MARKET PROSPECTS

In general, according to the early results from Cotton Outlook's September Business Confidence Survey, international yarn market prospects seem to have deteriorated further since July, when signs had already emerged of a more qualified optimism. China's growing impact on both western textile markets — witness the increasing penetration of the US textile and apparel market — and directly or indirectly on other primary textile producing industries continues to be well documented.

China has meanwhile shown little inclination yet to turn to the international market for increased raw cotton imports, a development that would doubtless have a strong influence on world price sentiment. Despite US and Australian complaints about Beijing's handling of its WTO inspired tariff-rated quotas, the policy seems to remain to first continue to dispose of the government's stocks of high-priced old crop remnants through the China National Cotton Exchange, a policy which would be undermined if imports grew quickly.

Current thinking in many quarters is still

that China will be required to import at some juncture but the timescale continues to recede.

An exception to the recent buying pattern of mills has concerned Australian 2002-03 crop cotton, which regular users have seemed willing to book at a steady pace, in view of the coming season's dismal output expectations.

Asking rates for 'outside' growths from the northern hemisphere new crops have meanwhile stayed firm, as sellers at major origins seem disinclined to make price concessions at a time when production doubts linger. The lateness of crops is a concern in

a number of countries, including Central Asia, Turkey, Greece and Spain, and attainment of previous production forecasts is dependent on good weather extending well into the autumn. Clearly, quality is also an issue in this respect.

The US Memphis Territory quotation is currently the cheapest component of the A Index and the US Step 2 subsidy for upland cotton has for the time being been 'de-triggered'. New York must continue to perform the task of facilitating US export sales and, barring changes to US supply prospects, may conceivably remain weak relative to the Index for some time yet. 🌱

